

## Message Text

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ORIGIN EA-10

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R 121517Z MAR 75

FM SECSTATE WASHDC

TO AMCONSUL HONG KONG

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E.O. 11652: N/A

TAGS: ENRG, CH, US, HK

SUBJECT: PROPOSED FLUOR CORPORATION REFINERY COMPLEX IN  
HONG KONG

1. CHINA TRADER HARNED HOOSE, RECENTLY RETURNED FROM VISIT  
TO CANTON AND HONG KONG, HAS APPROACHED DEPARTMENT (EA/  
PRCM), COMMERCE (BEWT/PRC) AND WHITE HOUSE FOR SUPPORT OF  
A PROJECT WHICH HOOSE SAYS PRC OFFICIALS HAVE ASKED A US  
FIRM--THE FLUOR CORPORATION OF LOS ANGELES--TO ORGANIZE.  
(FLUOR IS A HOOSE CLIENT.)

2. DURING JANUARY 28-FEBRUARY 22 VISIT TO CANTON AND  
HONG KONG PRIMARILY TO ASSIST SEABROOK IN ITS NEGOTIA-  
TIONS WITH CEROILFOOD ON FROZEN SHRIMP PROBLEM, HOOSE ALSO  
HAD AN OPPORTUNITY TO MAKE PRESENTATIONS ON BEHALF OF HIS  
OTHER CLIENTS. HOOSE SAYS THAT DURING THESE MEETINGS  
MACHIMPEX AND OTHER OFFICIALS IN CANTON ASKED FLUOR TO SUB-  
MIT A TECHNICAL PROPOSAL FOR A LARGE (200-300 TBL/D)  
REFINERY AND RELATED PETROCHEMICAL COMPLEX TO BE LOCATED  
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ON LAN TAO ISLAND IN HONG KONG. MAJORITY INTEREST WOULD BE

HELD BY AS-YET UNIDENTIFIED HONG KONG CHINESE WHO WOULD ACTUALLY BE PRC OFFICIAL(S) AND "FRONT" FOR THE PRC. FLUOR WAS ASKED TO ORGANIZE A CONSORTIUM OF US PETROLEUM OR CHEMICAL FIRMS AND BANKS WHICH WOULD HOLD A MINORITY INTEREST

IN THE PROJECT. THE CONSORTIUM WOULD PROVIDE DESIGN AND ENGINEERING SERVICES, PROCURE EQUIPMENT, CONSTRUCT THE FACILITY, AND JOINTLY OPERATE IT. PRC WOULD FURNISH FEEDSTOCK AND BUY SOME OR MOST OF FINISHED PRODUCTS (MAINLY ETHYLENE AND AROMATIC CHEMICALS), BUT WOULD NOT OTHERWISE BE MENTIONED IN CONTRACT. BALANCE OF PRODUCTION WOULD BE CONSUMED IN HONG KONG. HOOSE SPOKE OF A TOTAL COST OF APPROXIMATELY DOLS 4-5 BILLION (SIC).

3. FLUOR CORPORATION IS PRESENTLY SOUNDING OUT US FIRMS AND BANKS ON POSSIBLE INTEREST IN PARTICIPATING. HOOSE SAID THERE HAVE BEEN SOME DEFINITE INDICATIONS OF INTEREST, AND FLUOR IS SEEKING LETTERS FROM THESE FIRMS. HOOSE SAID THAT HE AND A FLUOR TEAM HAVE BEEN INVITED TO PEKING IN LATE MARCH TO PRESENT THEIR PROPOSAL AND THEIR RECOMMENDATIONS ON POSSIBLE CONSORTIUM MEMBERS, AMONG WHICH PRC WILL MAKE THE FINAL SELECTION.

4. HOOSE ON BEHALF OF FLUOR IS SEEKING LETTERS OF SUPPORT FOR THE CONCEPT FROM COMMERCE, STATE AND THE WHITE HOUSE. COMMERCE APPARENTLY INTENDS TO PROVIDE A GENERAL LETTER OF SOME SORT. SINCE WE DO NOT AT THIS POINT SEE ANY INSURMOUNTABLE POLICY OR EXPORT LICENSING PROBLEMS WITH THE PROPOSAL AS DESCRIBED, DEPARTMENT MAY ALSO RESPOND IN GENERAL TERMS TO LETTER FROM FLUOR. HOWEVER, AS HOOSE FREQUENTLY LEANS TOWARD OVERSTATEMENT, WE ARE SOMEWHAT SKEPTICAL AND ANY RESPONSE WILL BE CAREFULLY WORDED. HOOSE HAS ALSO RAISED THE POSSIBILITY OF EXIM BANK AND/OR OPIC LOANS AND GUARANTEES. THIS COULD OF COURSE RAISE SOME PROBLEMS, AND QUESTION OF EXACT DEGREE OF PRC INVOLVEMENT WOULD BECOME RELEVANT. HOOSE SAYS THAT CHINESE HAVE ASKED A JAPANESE FIRM, PROBABLY C. ITOH, TO MAKE A COMPETING BID.

5. PROPOSAL AS DESCRIBED BY HOOSE SEEMS SIMILAR LIMITED OFFICIAL USE

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TO SHELL/DOW AND TOA/HONG KONG TEXTILE ALLIANCE PROPOSALS, THOUGH LARGER IN SCOPE AND POSSIBLY WITH A LESSER DEGREE OF HKG INVOLVEMENT. IT MAY BE THAT PRC APPROACH TO FLUOR IS INTENDED TO SPUR THESE TWO GROUPS TO REACTIVATE THEIR PROPOSALS. ON THE OTHER HAND, HOOSE MAY WELL BE EXAGGERATING DEGREE OF PRC INTEREST IN THIS PROJECT. A STRIKING OMISSION IS LACK OF ANY INDICATION OF HKG'S ATTITUDE, OR WHETHER HOOSE HAS EVEN DISCUSSED PROJECT

WITH HKG. WE SEE HOWEVER A NUMBER OF POTENTIAL ADVANTAGES TO THE PRC IN A FLUOR-TYPE PROPOSAL, PARTICULARLY IN THAT IT OPENS THE POSSIBILITY OF OBTAINING SUBSTANTIAL FOREIGN CAPITAL TO DEVELOP PRC PETROLEUM RESOURCES, WHILE AT THE SAME TIME MASKING FOR IDEOLOGICAL AND OTHER

REASONS ACTUAL PRC INVOLVEMENT.

6. HOOSE WANTS INFO CLOSELY HELD. ABOVE PROVIDED PRIMARILY FOR POSTS' INFORMATION, ALTHOUGH COMMENTS WOULD BE WELCOME, PARTICULARLY IF CONGEN HAS ANY INFORMATION THAT MIGHT BE RELATED TO THIS PROJECT. INGERSOLL

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